I = Per patient day increment under 5.510

If expense is less than T1,
P = E + I + (0.04 * (T1 - E))

If expense is equal to or greater than T1, but equal to or less than T2,
P = T2

If expense is greater than T2,
P = T2 + (0.05 * T2/E) * (E - T2))

3.221 Patient Days. For calculating the support services expense, the expense per patient per day shall be based on patient days as determined under Section 3.010.

3.250 ADMINISTRATIVE AND GENERAL SERVICES ALLOWANCES

3.251 Method of Calculation. Payment for allowable expenses associated with the facility's provision of Administrative and General services shall be determined according to the following formula:

P = Administrative services payment allowance
E = Facility's actual allowable expenses for administrative and general services (per patient day) adjusted by an inflation/deflation factor applied to the common period. Inflation factors are listed in Section 5.330.
M = Per patient day maximum under Section 5.551.
I = Per patient day increment under 5.551

If expense is less than maximum,
P = E + I

If expense is equal to or greater than maximum,
P = M + I

3.253 Patient Days. For calculating the administrative and general expense per patient per day, the patient days to be used shall be determined under Section 3.010.

3.254 Exceptional Medicaid Utilization Adjustment. Only facilities with 70.0% or greater Medicaid utilization shall receive a payment adjustment. Payment for the exceptional Medicaid utilization adjustment will be determined in addition to the allowance under Section 3.251 using the following formula:

F% = The facility's adjusted Medicaid patient days divided by the facility's adjusted total patient days under Section 1.307.

P% = The peer percentage under Section 5.551

Base allowance = The base allowance in Section 5.551

The payment adjustment = (F%/P%) * Base allowance

3.300 FUEL AND OTHER UTILITY EXPENSE ALLOWANCE

3.310 Method of Computation. Fuel and other utility expense shall be determined as described below. Payment shall be determined by the following modified cost formula:

Payment = Fuel and utility payment allowance
Expense = Facility's actual allowable expenses per patient per day for fuel and utilities as adjusted by component inflation/deflation factors to the common period. Inflation factors are listed in Section 5.340.
Target = Target expense for facility's location. See Section 5.610 for targets.
Inflator = Inflation factor to adjust payment and expense to the payment rate year. (See 5.612.)

If expense is less than the target
Payment = [Expense X Inflator] + incentive in 3.320

If expense is equal to or greater than the target
Payment = [Target X Inflator] + incentive in 3.320

3.320 Energy-Savings Projects. If a facility completes a remodeling or renovation project specifically designed to reduce consumption of electricity or heating fuels, or to reduce their electricity or heating fuel rates per unit of energy, the facility will receive an incentive equal to the lessor of 25% of the projected cost of the project, as approved by the Department, or 25% of the actual cost of the project per year for two years. The incentive payment will be effective July 1 following completion of the project. Allowable costs for the project should be divided by patient days subject to minimum occupancy under Section 3.000.

In order to qualify for this adjustment, the project must have been approved in advance by the Department. During the approval process the Department will consider:

a. The projected savings from the project based on an independent analysis to be provided by the facility. Such analysis may be provided by a public utility or an independent contractor qualified in engineering, architecture, or energy audits.

b. The projected cost of the project.

c. The combined simple payback for all projects proposed for the facility must be less than ten years.

Allowable costs for the incentive will be the lower of: 1) the amount approved in advance by the Department, or 2) the cost of equipment, installation, engineering, energy management and consultant fees prior to rebates. Interest, bond discounts, premiums and financial and/or auditing fees will not be an allowable cost for the incentive.

3.340 On-Site Water and Sewer Plants. For facilities which have on-site water and sewer plants, costs associated with maintaining such operations will be included in the support services payment allowance, not the fuel and utilities payment allowance. For such facilities, the utility target will not be adjusted downward to reflect the absence of costs associated with the water and sewer functions, nor will the support services payment allowance be adjusted upward to reflect the presence of costs associated with the water and sewer functions.

3.350 Patient Days. For calculating fuel and utility expense per patient per day, the patient days to be used shall be determined under Section 3.010.

3.360 Seasonal Cost Variations. If a facility's base cost report is not for a twelve- month period, the heating fuel and utility expense shall be adjusted for seasonal cost variations. Whenever possible, a twelve-month period for heating fuel and utility expense should be used with such expenses adjusted to the time period covered by the patient day count. If twelve months cannot be acquired, then heating fuel expenses should be adjusted to a twelve-month period based on heating degree days.

3.400 PROPERTY TAX ALLOWANCE

3.410 Tax-Paying Facilities. Allowable property tax expense shall be based on the tax due for payment by the provider (or the lessor of the building) in the calendar year in which the payment rate year begins. For example, a July 1999 payment rate will include the amount of the December 1998 property tax bill plus an increment described in Section 5.700. The increment in Section 5.700 is limited to 100% of the tax amount due per patient day. Alternative cost reporting may be allowed under provisions in Section 4.000.

3.420 Tax-Exempt Facilities. The property tax allowance for tax-exempt providers may include the cost of needed municipal services. For municipal service fees, the expense shall be the expense for municipal services provided to the facility in the calendar year prior to the beginning of the payment rate year as appropriately accrued to that period. The increment in Section 5.700 is limited to 100% of the allowable municipal service fees due per patient day. For operating expenses incurred by the facility, the expense will be from the cost reporting period used for other payment allowances. The operating expense will be inflated/deflated to the common period by the support services inflation factor. Alternative cost reporting may be allowed under provisions in Section 4.000. The payment rate will include the inflated amount plus an increment described in Section 5.700.

3.430 Patient Days. For calculating the property tax allowance, the patient days to be used shall be determined under Section 3.010. If needed, the expense shall be adjusted to the length of time covered by the patient days.

3.500 PROPERTY PAYMENT ALLOWANCE

3.510 General. The property payment allowance will be a per patient day amount based on: the equalized value of the nursing home; target amounts based on service factors established by the Department; and the nursing home's allowable property-related expenses. This allowance is intended to provide payment for ownership, and/or rental of land, land improvements, buildings, fixed and movable equipment and any other long-term, physical assets.

3.520 Allowable Property-Related Expenses. Allowable property-related expenses include: depreciation, interest on plant asset loans, amortization of construction-related costs, amortization of bond discount and premium, lease and rental expenses, and property and mortgage insurance. These costs must be reported in accordance with generally accepted accounting principles (GAAP) and must be necessary for providing nursing home patient care.

The cost reports for the base cost reporting periods and alternative cost reporting periods, as defined in Sections 1.302 and 4.000, will be the source for the information used to determine allowable property-related expenses.

Allowable costs will be adjusted to reflect any limitation on the revaluation of capital assets or lease limitations required under Sections 3.522 or 3.523.

3.521 Maximum on Allowable Property-Related Expenses. Annual allowable property-related expenses will be limited to 15% of the equalized value of the facility.

3.522 Changes of Ownership. If a facility changes ownership on or after October 1, 1985, a change in valuation will be allowed the new owner of the facility. The new owner's valuation will be the lesser of the purchase price or maximum valuation. The maximum valuation is calculated by multiplying the sellers annual asset acquisition costs by year(s) of acquisition times the lesser of one-half of the percentage increase, measured over the same period of time, in the Consumer Price Index (CPI) for All Urban Consumers (United States city average) or the Dodge Construction Index (DCI) applied from the year(s) of acquisition to the date of the sale. The year(s) of acquisition is/are the year(s) the assets were purchased or constructed by the seller of the facility.

If either the seller or the buyer cannot support the individual assets acquired, the historic asset acquisition cost(s) and/or the date(s) of asset acquisition, the following procedure will be followed to impute the maximum allowable value related to capital assets:

1. The ending balance of the total capitalized historical cost of all depreciable assets, from the last available fiscal year cost report of the seller, will be the base value;

2. The ending balance of accumulated depreciation of all depreciable assets, from the same cost reporting period, will be divided by the reported depreciation expense (annualized, if necessary) to impute average years of ownership;

3. The lesser percentage of CPI or DPI described in the first paragraph of this Section 3.522 will be determined based on the imputed average years of ownership and applied to the base value of all assets acquired to calculate an initial maximum;

4. This initial maximum will be compared to 108% of the equalized value described in Section 3.531 below and the lesser value allowed as the maximum allowable value related to all assets.

Where no cost report information is available, the maximum allowable value will be 108% of the equalized value from Section 3.531.

If more than one nursing home is purchased at the same time, the purchase price of all property related assets will be allocated proportionately to all purchased assets based upon an independent uniform appraisal method chosen by the purchasing provider.

This section does not apply to changes of ownership pursuant to an enforceable agreement entered into prior to October 1, 1985.

The costs of acquiring the rights to licensed beds from another provider are non-reimbursable.

3.522(a) Expenses Associated with Change of Ownership Limited by Section 3.522. If a facility's valuation is limited under Section 3.522 the associated depreciation, amortization, and interest expenses will also be limited. Reported depreciation, interest and amortization expenses will be multiplied by the ratio of the above maximum to the actual purchase price to determine allowable expense. If the valuation of assets of the new owner are not limited to the maximum in section 3.522 actual costs will be allowed subject to section 3.520 allowability.

3.523 Lease and Rental Expense.

(1) Lease Maximum determination for on-going leases. If a facility was leased prior to the current cost reporting period, the maximum allowable lease expense for the current cost report period, will be limited to the lower of the actual lease payments or the total of the allowable lease expenses from the previous years cost reporting period multiplied by one-half of the percentage increase (as measured over the same period of time) in the Consumer Price Index for all Urban Consumers (United States City average).

(2) Lease Maximum determination for previously owned but never leased. If a facility is leased during the current cost reporting period but was not previously leased, the allowable maximum lease expense will be determined by reference to the current owners year(s) of acquisition of the facility's fixed assets to the current cost reporting period. The year(s) of acquisition is/are the year(s) the facility was purchased or constructed by the owner. The lease maximum will be determined by dividing: a) the lower of, the original cost(s) of construction adjusted by one-half of the Consumer Price Index, or the allowable purchase price adjusted by one-half of the Consumer Price Index, or the amount as determined per Section 3.522 by, b) the lesser of original cost(s) of construction or allowable purchase price from the cost report used for rate setting prior to the lease (per Section 3.522). This ratio will then be applied to the allowable property expenses, related to the assets now leased and that were included in rates effective June 30, 1999 to determine the maximum allowable property expense subject to number 5 below and Section 3.523(a). The lower of actual or calculated maximum lease expense shall be used for determining the property reimbursement under Section 3.530.

(3) Lease Maximum determination for new or replacement facilities. For new or replacement facilities that began operation in the cost report used for 1999-2000 rate setting, the lease expense paid is the maximum allowable for 1999-2000 subject to all other cost standards and formula limitations

(4) Lease determination for a sale and lease back. For purposes of this section, an unrelated party sale and lease back transaction will be limited by the percentage increase that would be applied if the facility had been leased prior to the base cost reporting period. The lease maximum shall be determined by applying one-half the increase in the CPI from the year of the sale to the allowed reimbursable property expenses for the assets that are now leased from the year before the sale.

(5) General provisions of allowable lease determinations. This limitation will only apply to lease expense and other capital costs as of the date of lease inception. It will not apply to depreciation, interest, lease and rental or other property costs on assets, whether the lessee or lessor acquired the assets after lease inception, such as the purchase or leasing of new equipment or leasehold improvements.

If a facility is unable to provide adequate support of the dates of asset acquisition, the procedure under Section 3.522 for imputing average years of ownership may be applied.

Lease expense includes the actual payments required under the lease contract. Lease expenses determined under the capitalized lease method of Financial Accounting Standards Board Statement No. 13 will not be recognized.

The costs of acquiring existing leasehold rights are not allowable.

3.523(a) For leases existing prior to the cost report used for 1999-2000 rates, the limit calculated under this section will be increased for depreciation and interest expenses incurred by a lessor for leasehold improvements completed on or after July 1, 1998. The amount of increase will be calculated as if the lessee had made the improvements. This increase will be allowed only after a written agreement by the lessor has been received by the Department guaranteeing access to all records relating to the claimed expenses.

3.524 New Facilities, Replacement Facilities and Significant Licensed Bed Increases or Decreases after July 1, 1998. For new facilities licensed after July 1, 1998, and facilities with significant licensed bed increases or decreases after that date (as defined in Sections 1.305 and 1.304 respectively), the property payment allowance will be recalculated using the cost reporting periods and procedures described in Sections 4.300, 4.400, or 4.500.

The property payment allowance will also be recalculated when a facility has replaced a significant number of licensed beds. ("Replacement" is defined in Section 1.306.) (A "significant" replacement is defined as the replacement of the lesser of: (1) 25% of licensed bed capacity or (2) 50 beds.) When a significant replacement has occurred, the property payment allowance will be based on at least a six-month cost reporting period which begins within five months after the first of the month following licensure of the replacement bed area. The adjusted property payment allowance will be effective as of the date of licensure. No phase-in or start-up provisions will apply to property payment allowances for facilities receiving adjustments for replacement facilities.

3.525 Depreciation and Amortization.

(1) Amortized A& G expenses. Amortization of the costs related to acquiring financing (i.e., bond issuance costs, bond placement fees, and letter of credit fees) are not considered property-related expenses but are allowable expenses under the administrative and general component. Financing fees include such items as, but not limited to, finder's fees, credit checks, origination fees, appraisal fees, feasibility studies, and loan application fees. Amortization of such fees is allowable in A & G. Write off of the entire unamortized discount (premium) and unamortized fees associated with refinanced debt will be allowed as of the date of refinancing as recognized for cost reporting purposes.

(2) Amortized property expenses. Amortization of bond discounts and premiums are to be considered an element of interest expense. Letter of credit fees related to a letter of credit used only as collateral for obtaining long term financing (bonds, mortgages, etc.) shall be allowed as property.

(3) Depreciation expense. Depreciation expense must be calculated under a straight-line method over a useful life, consistent with generally accepted accounting principles (GAAP). Useful lives will be determined by reference to the useful lives guidelines published by the American Hospital Association.

3.525(a) Minimum Useful Life for Plant Assets. Depreciation for either the initial construction of buildings or building additions (including fixed equipment and land improvements) must be based on a minimum useful life of 35 years from the earlier of: 1) the date of initial licensure of the facility as a nursing home or other health care facility, or 2) the date of initial occupancy. Remodeling projects of existing licensed facilities will be depreciated according to American Hospital Association (AHA) guidelines for each of the individual components of the project. A minimum estimated useful life of 20 years will be applied to facilities purchased after July 1, 1988. New movable equipment will be depreciated according to AHA guidelines. The minimum estimated useful life for purchases of used movable equipment will be 5 years. This life will be applied to the composite value of the purchased equipment.

3.525(b) Expenses Directly Related to Establishing Units for Services to Ventilator Dependent Residents. A facility's additional expenses for depreciation and interest directly related to establishing a unit for ventilator dependent residents may be exempted from the limitations and maximums under Sections 3.500. "Directly related" means that the costs have been incurred solely as a result of creating this unit and the equipment acquired or remodeling performed benefits only this unit. Prior approval by the Department (i.e., Director of the Bureau of Health Care Financing) of the remodeling project or equipment acquisition is required. This adjustment is only available for projects completed after July 1, 1993.

3.526 Interest Expense. Generally, interest expense on loans for acquisition of nursing home plant assets and equipment is an allowable property-related expense. Interest expense must be reasonable and necessary to be considered allowable. "Necessary" means that the interest is incurred on a loan necessary to satisfy a financial need and for a purpose reasonably related to nursing home resident care. Allowable interest expense on debt incurred for the acquisition of land, land improvements, buildings, leasehold improvements, and fixed and movable equipment related to nursing home patient care is a property-related expense.

3.526(a) Basis for Allowable Interest Expense. Allowable interest expense is based on:

1. Proper accrual under Section 1.302;
2. Recognizable debt balances under Section 3.526(b);
3. A "systematic reduction of debt" under Section 3.526(c);
4. Financing terms that would be incurred by a "prudent buyer" at the time a debt is created; and
5. The net amount remaining after investment income is offset.

3.526(b) Recognizable Debt Balances. Interest expense will be allowed only on debts which:

First, are for the acquisition of the plant assets listed in Section 3.526 that are directly related to nursing home patient care;

Second, have been limited or allocated, if necessary, under Section 3.522; and

Third, do not exceed 110% of Equalized Value per Section 3.531(b).

3.526(c) Systematic Reduction of Debt. Allowable interest expense may not exceed the amount which would have been incurred under a systematic reduction of debt. The calculation of this limitation varies based on whether a facility makes at least annual principal payments or deposits to a segregated interest-bearing account.

If a facility makes at least annual principal payments or deposits to a segregated, interest-bearing account which will result in repayment of the debt at maturity, a systematic reduction of debt means a debt which has:

1. Payments of interest and principal which are uniform over the total length of debt; and
2. A length not exceeding the lesser of forty (40) years or the remaining useful life of the longest lived asset acquired with debt proceeds.

Allowable interest expense is predicated upon required systematic reduction of debt.

If a facility does not make at least annual principal payments or deposits, a systematic reduction of debt will be determined by the Department through:

1. An amortization schedule for a period of thirty (30) years from the date of asset acquisition;
2. Applying the interest rate as stated in the debt contract;

For: Boeckh URC = The Boeckh Undepreciated Replacement Cost after Section 3.531(a) square footage adjustments;

Boeckh DRC = The Boeckh Depreciated Replacement Cost after Section 3.531(a) square footage adjustments

URC = Allowable Undepreciated Replacement Cost (the lesser of Boeckh URC or the equalized value in Section 5.830)

Then allowable Equalized Value (EV) is calculated as:

EV = (Boeckh DRC/Boeckh URC) X URC

3.532 Property Allowance Calculation. A target amount (T1) will be calculated for each facility by multiplying the equalized value from Section 3.531 by a service factor described in Section 5.820 (a).

When a facility's allowable property-related expenses are less than the target amount (T1), the property payment allowance will be allowable expense plus the incentive value in Section 5.850 times the amount by which expense is less than the target (T1). When the facility's allowable property-related expenses are equal to or greater than the target amount, the property payment allowance will be the target amount plus 100% of the amount by which allowable expense exceeds the target up to the factor in Section 5.820 (b), and the cost share value in Section 5.840 times the amount by which allowable expenses under Section 3.521 exceed the factor in Section 5.820 (b).

This calculation can be expressed:

For:
- E = Allowable property-related expenses up to Section 3.521 maximum;
- T1 = The service factor in Section 5.820 (a);
- T2 = The service factor in Section 5.820 (b);
- PA = Total property payment allowance;
- I = Increment described in Section 5.810;
- C = Cost Share Value described in Section 5.840; and
- N = Incentive described in Section 5.850.

Then: Where E is less than T1:

$$PA = (E + N * (T1 - E)) + I$$

Where E is equal to or greater than T1 and E is less than T2:

$$PA = E + I$$

Where E is greater than T2:

$$PA = (T2 + C * (E-T2)) + I$$

Facilities which have completed a Ch. 150 Resource Allocation Program approved project involving construction or renovation of physical plant between July 1, 1996, and December 31, 1997, will have a cost share percentage as described in Section 5.840(b). Nursing facilities that have a licensed bed capacity of 50 beds or less, after adjustments in Section 3.000, will have a cost share as described in Section 5.840(b). Facilities that are certified as ICF/MR, either in whole or in part, will have a cost share as described in Section 5.840(a), unless they have completed a RAP-approved project as noted above.

3.534 Per Patient Day Property Payment Allowance. To calculate the per patient day property payment allowance, the property allowance (Section 3.532) is divided by the appropriate number of patient days as determined under Section 3.010. If needed, the expenses shall be adjusted to the length of time covered by the patient days.

For calculating the per patient day property payment allowance for newly-licensed facilities and facilities with significant licensed bed increases, the patient day provisions of Sections 4.320 and 4.420 will apply. For replacement facilities, the 91% minimum occupancy rate will be applied.

3.537 Maximum Decrease. A facility's payable property allowance will not be reduced by more than $3.50 per patient day from the allowance in effect on June 30, 1999. An exception to this maximum decrease is made if the June 30, 1999, allowance is subject to adjustment after June 30, 1999, for the lapsing of the "start-up" occupancy provisions for newly-licensed or expanded facilities. In these cases, the $3.50 maximum reduction is measured from the allowance which would have resulted from applying the Methods in effect on June 30, 1999.

1. The projected expenses for the nursing facility as determined under Section 3.732 of the Methods plus the property expense as determined under Section 3.520 of the Methods plus the wage pass-through supplement expense in Section 3.780.
2. The current Methods rate as determined under Section 3.740 of the Methods plus the property allowance as determined under Section 3.530 of the Methods plus the wage pass-through supplement expense in Section 3.780.
3. The hold harmless rate under Section 3.760, if applicable, plus the property allowance under Section 3.530 of the Methods plus the wage pass-through supplement expense in Section 3.780.
4. The projected Medicaid Direct Care Operating Deficit (DCOD).
5. The projected Medicaid Overall Operating Deficit (OAOD), including property expense and allowance.
6. The imputed county or local expenditure for the period 7/1/99 through 6/30/2000.
7. Issue a report to the facility, listing all of the amounts B1. through 5. The facilities will have 14 calendar days to respond to the Department. The final award will be based on this report. The Department may terminate adjustments to the amounts in the report following the response period.

C. The maximum supplement is the lesser of the following:

1. The OAOD under B5.
2. The amount imputed under B6.

D. The basis for allocating the prospective supplement is determined as follows:

1. If the total maximum supplement under C. for all eligible facilities is less than the amount in Section G., the award will be the amount determined under C. for each facility.
2. If the total maximum supplement under C. for all eligible facilities is greater than the amount in Section G., and the total DCOD under B4. is less than the amount in Section G., the award for each facility will be the sum of:
   a. The lesser of the DCOD under B4. and the OAOD under B5., plus
   b. Its prorata portion of the funds not allocated under D2.a. These funds will be allocated based on the OAOD less the DCOD.
3. If the total maximum supplement under C. for all eligible facilities is greater than the amount in Section G. and the total DCOD under B4. is greater than the amount in Section G.; the award for each facility will be based upon the DCOD only and will be determined as follows:
   a. The lesser of the DCOD under B4. and the OAOD under B5. will be determined.
   b. 1) If the facility's deficit under D3.a. is less than or equal to the mean deficit for eligible facilities, the eligible deficit is the deficit computed under D3.a.
      2) If the facility's deficit under D3.a. is greater than the mean deficit for eligible facilities, the eligible deficit is:
         a) The mean deficit for all eligible applicants, plus
         b) 50% of the difference between the facility's deficit under D3.a. and the mean deficit.
   c. The facility's Direct Care supplement equals the ratio of its eligible deficit under D3.b. to the total of the eligible deficits for all applicants multiplied by the available funding identified in Section G.

E. If the amounts determined under D2. or D3. exceed the maximum determined under C., the supplement will be limited to the maximum under C. The available funds not allocated as a result of applying the maximums will be allocated to the remaining eligible facilities.

F. Supplemental funds for the prospective settlement awarded to the facility may be made in lump sum payment(s).

G. Total supplemental funding shall not exceed $37,100 000 plus the amount in excess of $102,395,800 of federal matching funds received based on a prospective settlement of estimated losses sustained by facilities for providing services to Medicaid residents and certified by a local unit of government. The Department shall reduce the supplemental funding to the local units of government if it determines that the aggregate payments to nursing homes under these Methods would exceed the Medicare upper limit.

3.780 Wage Pass-Through Supplement

Effective October 1, 1999, facilities may receive a supplement to the rate which represents an increase in wages or salary and fringe benefits for nurse assistants or additional staff hours of nurse assistants and resident living staff for ICF-MR,s. A maximum per diem supplement shall be calculated by dividing the total of nursing assistants and residential living staff in ICF-MRs wages or salaries of the facility by the total number of adjusted patient days of the facility and multiplying the result by 5%. Facilities' wages, salaries and patient days for this calculation will come from the base cost reporting period in Section 1.302. The maximum payment shall be the per diem maximum above multiplied by 274 days by the average number of Medicaid residents, The total cost of this supplement for all facilities shall not exceed $8,309,000. Facilities must apply for the wage pass-through supplement.

The Department may audit supplemental cost reports from the facilities to ensure the supplement was used appropriately. The Department shall take into account the following factors:

- The fact that the wage supplement percentage increase is based only on wages and salaries, while the cost comparison also includes fringe benefits
- Any decrease or increase in the facility's expenditures for contracted labor services
- Any change in the facility's acuity levels
- Whether or not the facility's reporting period corresponds to the supplement payment period
- Any other factor that the Department determines is relevant and that is readily available in the data base of the Department. These factors can include, but are not limited to, significant discrepancies between the facility's base cost report and the wage pass-through supplemental report, or otherwise may not accurately reflect actual increases in wages, fringes and benefits or increased staff hours.

If the Department determines that a wage-pass through supplement was not expended as required, it may recoup that part of the supplement.

Addenda

The wage pass-through supplement will not recognize cost increases in purchased services relating to "pool" services.

If total awards exceeds $8,309,000, all awards will be reduced proportionately.

The total amount paid to a facility will be the lower of the 5% maximum calculated above or the actual increased expenses incurred between July 1, 1999, and June 30, 2000.

3.800 ANCILLARY BILLABLE ITEMS

Medical transportation may be separately billed by a nursing home provider as an ancillary. Billings may not exceed the nursing home's actual cost. A per patient day ancillary add-on to the payment rate may be allowed for the cost of transportation services, but not to exceed the amount which would have been separately billable by the facility. The Department shall retain its authority under s. 49.45(10), Wis. Stats., to modify this paragraph.

3.802 Oxygen. A nursing home may bill for oxygen in cubic feet, pounds, tanks or for the daily rental of oxygen concentrators. The nursing home must use the claim form approved by the Department for oxygen billing. The nursing home will be subject to maximum fees for these services. Prior authorization is required for more than 30 days' rental of an oxygen concentrator for a resident.

3.810 ADD-ONS FOR SEPARATELY BILLABLE ITEMS

3.811 Ancillary Add-Ons. A per patient day add-on to the daily rate may be allowed for the cost incurred by the facility for specifically identified covered services and materials which could be billed separately to the Medicaid Program by an independent provider of service. These services and materials must be available to all Medicaid recipients of the facility. If some portion of the services and materials must be supplied by an outside provider, the facility is responsible for payment to the outside provider.

The maximum amount allowed a facility for an add-on shall be the estimated maximum reimbursement available to independent providers for such services and materials when billing the Medicaid Program separately. The Department may exclude all costs in excess of this maximum. Such costs shall be from the reporting period(s) specified by the Department. If an add-on is approved, then neither the facility nor independent provider or providers of service may bill or charge the Medicaid Program separately for the material or services which are covered by the add-on. If a special need arises, i.e. something not covered by the add-on for any resident, the facility must receive approval from the Department in advance, in order for an independent provider to be reimbursed for the service or material.

NOTE: Each facility with an ancillary must demonstrate that the add-on to the daily rate is equal to or less costly than if the service was reimbursed to an independent provider through separate billings. If a facility requests a new ancillary add-on, the facility must demonstrate to the Department that the add-on meets the requirement of this section before the add-on is approved. The method of reporting the estimated expenditure shall be specified by the Department.

3.812 Adjustment for Changes in Practice. It is possible that a facility may wish to begin or resume billing some services or materials separately, after having had ancillary add-ons previously incorporated into its daily rate. If that occurs, the Department may make a reasonable and appropriate off-setting reduction to the facility's previous or current payment rate to exclude an ancillary add-on for the service. THE FACILITY SHALL NOTIFY THE DEPARTMENT OF THE CHANGE 30 DAYS PRIOR TO THE PROPOSED EFFECTIVE DATE.

3.900 REIMBURSEMENT OF STATE-OPERATED FACILITIES

3.910 General. The state-owned nursing facilities and ICF-MRs serve a unique population of residents in Wisconsin. Determination of payments will be guided by the provisions below and by the appropriate sections of state statute.

SECTION 4.000 SPECIAL PAYMENT RATE ADJUSTMENTS AND RECALCULATIONS

4.100 RETROACTIVE RATE ADJUSTMENTS

4.110 Retroactivity. The Department has the authority to retroactively adjust the daily rate in such circumstances as audit adjustments, errors in reporting, errors in calculations, implementation of administrative formula provisions, and implementation of rules enacted under s. 49.45(10), Wis. Stats.

4.115 Administrative Reviews and Appeals. Sections 4.110 through 4.150 do not apply to administrative reviews under Section 1.800 or to appeals under Section 1.400 or Section 1.700. The time limits within which administrative reviews or appeals must be filed are determined under the relevant section, rule, and guidelines.

4.120 Material Adjustments. Only audit adjustments and/or corrections of errors which have a combined net material impact on rates and payments for services will be incorporated into the rates. "Material" is defined as the combined net increase or decrease being equal to or greater than an average change of $.050 per patient day. The average change shall be calculated on a weighted average of the change in each level of care payment rate using the patient days from the calculation of the average base rate (See Section 3.710). The materiality test will be applied separately each time payment rates are recalculated for the correction of errors or audit adjustments with the newly-adjusted rates being compared to the rates being corrected or adjusted.

4.130 Within 150 Days. A provider must deliver written notice of errors to the Department within 150 days of the date of the first rate approval letter in order for any corrected rates to take effect on the original effective date of the rates in error. A postmark date shall be considered delivery date. The provider will be limited to only one such retroactive adjustment per rate effective period in order to correct errors in reported data. Departmental corrections to the rate calculation mechanics of the Department shall not be limited to one such retroactive adjustment. Notice or approval of a corrected rate does not initiate a new 150-day period.

If errors are found by the Department, increased corrected rates will be effective on the first of the month following the month in which the error was found and decreased corrected rates will be effective on the original effective date of the rates being corrected. If such errors are found coincident to a notice from the provider of some other errors, then corrections for the findings of the Department shall be incorporated with and allowed to be retroactively effective in conjunction with the corrections resulting from the notice from the provider.

4.140 After 150 Days. If the provider delivers written notice of errors to the Department more than 150 days after the date of the first rate approval letter, corrected increased rates will be effective the first of the month following the month in which the notice was delivered to the Department. Corrected decreased rates from such notice shall be effective on the original effective date of the corrected rates. A postmark date shall be considered delivery date.

If errors are found by the Department, corrected increased rates will be effective the first of the month following the month in which found by the Department. Corrected decreased rates shall be effective on the original effective date of the rates being corrected. If such errors are found coincident to a notice from the provider of some other errors, then corrections for the findings of the Department shall be incorporated with and be effective in conjunction with the corrections resulting from the notice from the provider.

4.150 Audits. Any findings of the Department in the course of an audit shall be considered findings coincident to any written notice of errors delivered by the provider to the Department in the course of the audit. Such corrections submitted by the provider shall be taken into consideration in conjunction with and incorporated with any findings of the Department when determining audit adjusted payment rates. An audit shall be considered completed on the date of the approval letter of the audit adjusted payment rates. This completion date initiates the 150-day period described in Section 4.130.

4.200 CHANGE OF OWNERSHIP

4.210 No Rate Change for New Owner. There shall be no payment rate recalculation due to the change of ownership of a facility or operation which occurs during the payment rate year described in Section 1.130. The new provider will be paid the rate which the former owner was paid or would have been paid if no change of ownership had occurred, unless other provisions of this Section 4.000 allow adjustments to the payment rate. If the change of ownership occurred prior to the payment rate year, July 1 payment rates shall be determined based on a cost reporting period allowed under Section 1.302.

4.220 Prior Owner's Cost Report Required. The cost report for the period during which the facility was operated by the previous owner is still required and must be submitted to the Department unless the Department determines the cost report is not needed. THE NEW OWNER SHOULD ASSURE THE PRIOR OWNER'S COST REPORT IS SUBMITTED. The cost report is presumed to be needed in order for the